

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 46

February 1, 2017

SUMMARY OF BILL: Exempts individuals from the occupational privilege tax in the first year such individuals are licensed or registered in a taxable occupation.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$9,004,100

Decrease State Expenditures – \$98,800

Increase Local Revenue – \$44,700

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-1703(a), occupational privilege tax is a \$400 annual tax on persons engaging in certain occupations in Tennessee as specified in Tenn. Code Ann. § 67-4-1702.
- Pursuant to Tenn. Code Ann. § 67-4-1701, privilege tax collections are required to be deposited to the General Fund.
- The first year impacted by the proposed tax exemption is estimated to be FY17-18.
- The Department of Revenue (DOR) reports that the average number of new occupational privilege taxpayers over the last five years is 22,784. This number is assumed to remain constant into perpetuity.
- Pursuant to Tenn. Code Ann. § 67-4-1709, any employer, including any governmental entity, is authorized to remit the occupational privilege tax on behalf of persons subject to the tax who are employed by such employer.
- Based on information provided by DOR, the total number of first-year state employees engaged in a taxable occupation is estimated to be 247. This number is assumed to remain constant into perpetuity.
- The recurring decrease in state privilege tax revenue is estimated to be \$9,113,600 (22,784 x \$400).
- The recurring decrease in state expenditures is estimated to be \$98,800 (247 x \$400).
- The Tennessee Advisory Commission on Intergovernmental Relations' 2016 study (*The Professional Privilege Tax in Tennessee: Taxing Professionals Fairly*) reports that 64 percent of occupational privilege taxpayers reside out of Tennessee, while 36 percent reside in the state.

- It is assumed that 50 percent of tax savings by in-state residents, net of the amounts paid by the state on behalf of such residents, will be spent in the economy on sales-taxable goods and services.
- Total annual tax savings that will be spent in the economy on sales-taxable goods and services are estimated to be \$1,622,664 $[(\$9,113,600 - \$98,800) \times 36\% \times 50\%]$.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in state sales tax revenue is estimated to be \$109,478 $[(\$1,622,664 \times 7.0\%) - (\$1,622,664 \times 7.0\% \times 3.617\%)]$.
- The total recurring increase in local sales tax revenue is estimated to be \$44,675 $[(\$1,622,664 \times 2.5\%) + (\$1,622,664 \times 7.0\% \times 3.617\%)]$.
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$9,004,122 $(\$9,113,600 - \$109,478)$.
- Occupational privilege tax returns are filed electronically and the DOR does not have any staff dedicated to this tax. Therefore, there will be not staff reductions as a result of the proposed tax exemption.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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